Denver Water Credit Union
Charter # 65790
March 24, 2009
Response to ANPR – Corporate Stabilization Program

Payment System Proposals

1. Should payment system services be isolated from other services to separate the risks? Answer:

No, this is not the reason for the conservatorship of US Central and Wescorp. If the corporate can operate their systems independently and have an adequate back up plan and accounting system they can count on to quantify their risk, then isolating the two systems is not necessary.

If so, what is the best structure for isolating these services from other business risks? *Cost Accounting system.*

2. Should there be a charter that strictly limits corporates to operating a payment system only?

No. This is a solution. The corporates and assumably NCUA know the "why behind what' on problems corporates are having. Is this a real problem or a one time problem or a problem at all? NCUA has let corporates operate in this manner for some time. If this problem can be resolved with ease within the existing corporate system, then they can resolve their own problems. It is in the NPCU's best interest to have them resolve their problems and maintain one charter so we are not charged for capitalizing a separate charter.

3. Are there sufficient earnings potential in offering payment systems to support a limited business model that is restricted to payment systems services only?

I do not know.

Liquidity and liquidity management proposals

1. What steps should be taken, and by whom, to preserve and strengthen corporates' ability to offer liquidity services?

As a NPCU, we are only told what NCUA or the corporates tell us. The lack of transparency is a serious problem. These questions raise more questions than answers. There is a liquidity problem throughout the market place. NCUA and Corporates need to be more accountable for their investment decisions from a liquidity or concentration risk standpoint and it also appears all parties need to have better education in understanding how these investments perform in a worse case scenario. Is it cost effective for corporates to concentrate their risk in mortgage back securities throughout the country? No. How much does it cost to quantify the risk that corporates are able to take?

The voice of reason in all of this may be, "How much will due diligence cost us in whatever investment decisions we make to insure that we are safe and sound?"

NCUA also has responsibility in allowing inconsistent regulation for NPCU's and corporates. Education and understanding of investment vehicles needs to be first and foremost for both corporates and regulators. The issue of mortgages has come up two times in Colorado and the regulators were backing these programs to NPCU's before they failed. Who does the NPCU count on to be a voice for the members?

2. Should the NCUA consider limiting a corporate's ability to offer other specific types of products and services in order to preserve and defend the liquidity function?
    a) What specific types of products and services should corporates be authorized to provide?

    I do not know. This can only be answered by the Corporates. What is the essential function of a corporate credit union? There seems to be a lack of unity on the answer if NCUA is posing the question.

3. Should the NCUA add aggregate cash flow duration limitations to Part 704?
    a) If so, describe how this requirement should be structured, and also identify how such limitations would benefit liquidity management.

    Yes. I do not know how this should be structured.

Field of Membership Issues

1. Should the agency return to defined FOMs to address what they perceive as risk associated to expanding FOM?

Yes. Regional corporates have a much better understanding of the markets they are serving and the risks associated with each market place. How did Wescorp know what was happening in the 1100 CU's it was serving? How many markets were these CU's in?

2. *If NCUA decides to allow corporates to continue to have an open Field of Membership, then there has to be adequate due diligence within the corporate to understand the diversity of each marketplace. As a NPCU, our markets have unique characteristics from one end of the city to the other.*

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Expanded Investment Authority

Currently, Part 704 provides an option by which corporates meeting certain criteria can qualify for expanded investment authority.

1. Does the need for expanded authorities continue to exist?

No, not in the current marketplace. It would be very difficult at this time for corporates to step up to the expanded authority requirements. I do not know which corporates currently have expanded authorities, or base plus. Can the NCUA say today that corporates are currently on board with these regulations?

What is the return on investment for corporates with expanded investment authority?

NCUA needs to assess each corporate credit union to determine if they have the adequate internal controls, expertise, personnel, etc., in place to match their investment authority.

2. Alternatively, should any of the limits in existing expanded authorities be reduced or increased?
    a) If so, which ones? *See above assessment*

3. Once granted, should NCUA require periodic requalification for expanded authorities?

Yes, if the authorities are not removed as a result of the ANPR,, it would only be prudent to requalify for the authorities. Key personnel change, organization structures change, the markets change and technology changes. These would all be trigger points to requalify for expanded authorities.

    a) If so, what should be the timeframe? *I think the NCUA should establish trigger points and when these happen, requalification to some degree needs to be looked at.*

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<u>Structure: two-tiered system</u>

The corporate system is made up of two-tiers: a retail network of corporates that provide products and services to NPCUs, and a single, wholesale corporate (U.S. Central) that exclusively services the retail corporates.

1. Does the two-tier corporate system in its current form meet the needs of credit unions?
No. The two tier system did not work in that the corporate network was able to invest the money of NPCU's in investments that were not in alignment with our regulations. Our risk was not transparent, and the corporates have not been required to be transparent. As the originators of the money chain this does not make sense.

2. Is there a continuing need for a wholesale corporate credit union?

Yes, per NCUA, US Central could not fall on its face due to the payment systems it provided.

   a) If so, what should be its primary role? *Payment systems only.*

3. Should there be a differentiation in powers and authorities between retail and wholesale corporates? *Yes.*

4. Does the current configuration result in the inappropriate transfer of risk from the retail corporates to the wholesale corporate? *Yes*

5. Should capital requirements and risk measurement criteria (e.g., NEV volatility), be different from those requirements that apply to a retail corporate credit union?

Yes, the wholesaler has been allowed to affect the whole system down to the member.

<u>Corporate Capital</u>

NCUA is considering revising various definitions and standards for determining appropriate capital requirements for corporates. These changes would bring the corporate capital requirements more into line with standards applied by other federal financial regulators.

Another issue under consideration is whether to require a certain level of contributed capital from any natural person credit union seeking either membership or services from a corporate.

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Core Capital –
Under the current rule, core capital is defined as retained earnings plus paid-in capital.

1. Should the NCUA establish a new capital ratio that corporates must meet consisting only of core capital, and if so, what would be the appropriate level to require. *No.*

2. What actions are necessary to enable corporates to attain a sufficient core capital ratio? *None, bad investments eroded their capital.*

3. What would be an appropriate time frame for corporates to attain sufficient capital?

   See # 7.

4. What is the appropriate method to measure core capital given the significant fluctuation in corporate assets that occur?

5. What is the correct degree of emphasis that should be placed on generating core capital through undivided earnings?

6. Should there be a requirement that a corporate limit its services only to members maintaining contributed core capital with the corporate?

7. Offer any other suggestions or comments related to core capital for corporates.

These questions show that NCUA would like to change the capital structure. How much capital can an institution have to be safe and sound? The nature of the CU business is risk. Our business is a business of risk. We have not done anything to violate that risk, and we will have to pay to provide NCUA less risk. As an industry we cannot afford to pay for this comfort. We have done well as an industry.

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Membership Capital

1. Should the NCUA continue to allow membership capital in its current configuration, or should the agency eliminate or modify certain features, such as the adjustment feature, so that membership capital meets the traditionally accepted definition of tier two capital?

Yes.

2. Should adjusted balance requirements be tied only to assets? *Yes.*

3. Should the NCUA impose limits on the frequency of adjustments? *No.*

4. Should the agency require that any attempted reduction in membership capital based on downward adjustment automatically result in the account being placed on notice, within the meaning §704.3(b)(3), so that only a delayed payout after the three-year notice expires is permissible? *No.*

5. Should there be a requirement that any withdrawal of membership capital be conditioned on the corporate's ability to meet all applicable capital requirements following withdrawal?

Risk-based capital and contributed capital requirements

1. Should NCUA consider risk-based capital for corporates consistent with that currently required of other federally regulated financial institutions? *Yes.*

2. What regulatory and statutory changes, if any, would be required to effectuate such a change? *I do not know.*

3. Should a natural person credit union be required to maintain a contributed capital account with its corporate as a prerequisite to obtaining services from the corporate? *No.*

4. Should contributed capital be calculated as a function of share balances maintained with the corporate? What about using asset size? *No.*

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Permissible Investments

NCUA is considering whether the corporate investment authorities should be constrained or restricted. Presently, corporates have the authority to purchase and hold investments that would not be permissible for natural person FCU members under Part 703 (or, in some cases, outside of what is authorized for a state chartered credit union).

1. Should the NCUA limit corporates' investment authorities to those allowed for NPCUs? *Yes.*

2. Should the NCUA prohibit certain categories of, or specific, investments? *Yes. There has to be risk alignment and transparency..*

Credit Risk Management

1. Should the NCUA limit the extent to which a corporate may rely on credit ratings provided by Nationally Recognized Statistical Rating Organizations (NRSROs)? *Yes.*

2. Should the NCUA require more than one rating for an investment, or require that the lowest rating meet the minimum rating requirements of Part 704? *Yes.*

3. Should the NCUA require additional stress modeling tools in the regulation to enhance credit risk management? *Yes.*

4. Should Part 704 be revised to lessen the reliance on NRSRO ratings? *Yes, if there is expertise alternatives in the market place.*

5. Identify any other changes that may be prudent to help assure adequate management of credit risk. Considerations should include whether Part 704 should be revised to provide specific concentration limits, including sector and obligor limits.

6. What specific limits would be appropriate for corporates?

7. Should corporates be required to obtain independent evaluations of credit risk in their investment portfolios? *No.*
   a. If so, what would be appropriate standards for these contractors? *The cost of assessing risk is going to outweigh the risk.*

8. Should corporates be required to test sensitivities to credit spread widening, and if so, what standards should apply to that effort? *Yes.*

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<u>Asset Liability Management</u>

Under past rules, the NCUA required corporates to perform net interest income modeling and stress testing. The agency is considering re-instating that requirement in light of the current market. Alternatively, the agency may consider some form of mandatory modeling and testing of credit spread increases.

1. Should the NCUA require corporates to use monitoring tools to identify these types of trends, including specifically comments about tangible benefits, if any, which would flow from these types of modeling requirements? *Yes.*

<u>Corporate Governance</u>

1. Should the NCUA require that a director possess an appropriate level of experience and independence? *Yes.*

2. Should the agency set term limits, allow compensation for corporate directors, and requiring greater transparency for executive compensation? *Yes.*

3. Is the current structure of retail and wholesale corporate credit union boards appropriate given the corporate business model? *No.*

4. Should NCUA establish more stringent minimum qualifications and training requirements for individuals serving as corporate credit union directors? *Yes.*
    a. If so, what should the minimum qualifications be?
    Corporate directors should be well versed in Investment policies and have a clear understanding of the make-up of the corporates functions from a cost and income perspective.
5. Should the NCUA establish a category of "outside director," (persons who are not officers of that corporate), officers of member natural person credit unions, and/or individuals from entirely outside the credit union industry?
    Yes, if they are CPA's and they are trained in independence and objectivity.
    a. Should the NCUA require that corporates select some minimum number of outside directors for their boards? *Yes, CPA's.*

6. Should US Central be required to have some directors from NPCUs? *Yes.*

When the Corporates sit on the wholesale Corporate Board, year after year, there is no objectivity in the collective mind of the Board. Everyone becomes very comfortable and single minded.

7. Comment is also sought on whether corporate directors should be compensated, and, if so, whether such compensation should be limited to outside directors only. *Yes, to outside directors only.*

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